

INCOME DEPENDENT EDUCATION ASSISTANCE ACT{PRIVATE }

I. Date of enactment and other basics

1. This bill will take effect for student loans disbursed as of July 1, 2002.
2. No new loans under FFELP and DLP will be issued after July 1, 2002 (PLUS Loans can continue).
3. All guarantee agency reserves will be recalled after July 1, 2002. Guarantee agency functions (for old loans) phased out in manner to be determined by the Secretary of Education.
4. Aforementioned dates can be moved to an earlier time if the Secretary of Education finds that the program is ready to begin sooner than July 1, 2002.
5. Students are not required to apply for federal grants in order to apply for a student loan.
6. No financial information will be required of parents and students to qualify for a student loan. (Because loans to wealthy students are profitable for the government under new terms.)
7. Nothing shall prohibit schools and participating auction lenders from entering into exclusive relationships.

II. Auction Process

1. Currently eligible lenders, secondary markets, and guarantee agencies will bid on blocks of loan authority. (block size to be determined.)
 - a. Not-for-profit entities will have to create a for-profit subsidiary to participate in auction.
2. Each successful bidder will pay the price bid for the next lower-bid block.
3. This process will continue until all loan authority is exhausted.
4. The Secretary of Education can use a different process if it can be shown that it will generate more revenue for the Treasury.
5. The Secretary of Education will auction off slightly more loan authority than is expected to be needed for the school year.
6. In the event that insufficient loan authority is provided through the initial auction, the Secretary of Education is authorized to auction off additional loan authority.
7. In lieu of auctioning off additional loan authority, the Department of Education may act as the lender of last resort.
 - a. The Department of Education may use its Sallie Mae contract or the Direct Lending program as in existence prior to July 1, 2000.

8. Auction winners can sell portions of their blocks (or entire block).
9. The Secretary establishes system to match loans and rights.

III. Student terms

1. All up-front fees for students will be eliminated.
2. All loans that are held by private lenders will be unsubsidized.
 - a. Student will be liable to pay interest that accrues during the in-school and the 6-month grace periods.
3. The in-school (as well as 6 month grace period) interest rate will be the 91-day T bill + 2.3.
4. The post-grace period interest rate will be the 91-day T bill + 2.8.
5. During the in-school and six month grace periods, the student will have the option of paying the interest or letting it capitalize.
6. Loans held by private lenders will be repaid under repayment options offered by holder.
7. The interest rate will be variable as in the current FFELP.
8. The maximum borrowing limits will be equal to current combined limits
9. Student interest is capped at 9% and special allowance payments are provided.
10. Borrowers will be eligible for Income contingent repayment.

IV. Income Contingent Repayment (ICR)

1. Students who believe they may receive a subsidy may elect ICR.
 - a. Once a borrower selects this method of repayment, he can't leave.
2. Once a student selects this method of repayment, the government will buy the outstanding loan or loans from holder/holders.
3. The student begins repayment based on income and account balance according to tables specified in the bill.
4. Payments will be made through IRS collection.
 - a. Payments will be held as additional withholding on W4 form. (Line already exists - no added work for employers)
 - b. Borrower will reconcile his account during income tax filing.
 - c. It will not be necessary for the IRS to separate loan payment from other incoming taxes. (IRS simply reports income and payments from 1040s to office holding accounts and gets back list of taxpayers with insufficient for "d" below.)

- d. Borrowers who provide insufficient withholding/payment are subject to current IRS sanctions.
 - e. Borrowers who over-pay may apply excess to principal, other taxes, or receive a refund.
 - 5. The interest rate for ICR will be the 91-Day T bill + 2.8 during the first 12 years of ICR repayment.
 - a. After 12 years, the account balance at the time the government acquired it will be reduced by 10%, and the rate will fall to the 91-Day T bill + 1.8, recalculated over the entire history of the loan since the government acquired it.
 - b. After 16 years, the rate will fall to the 91-day T bill + 0.8, again recalculated as above.
 - 6. Any interest left unpaid under these terms will be capitalized to the principal at end of the calendar year.
 - 7. Anything unpaid after 25 years of repayment will be forgiven, without recognition as income subject to tax.
 - 8. Borrowers who choose ICR right after school may waive grace period and begin repayment in order to start 12, 16, and 25 year clocks.
- V. Loans in default
- 1. A private holder will collect on delinquent loan as under current law for at least 90 days.
 - a. After 270 days, the holder must sell the loan to the government, which pays the holder all unpaid interest (including period of default) and principal.
 - b. After 90 days, but before 270 days, the holder may sell loan to government under abovementioned terms.
 - 2. The government then holds the paper and may put the loan in ICR with IRS collection.
 - 3. ICR is automatic for defaulters (if desired by government) by prior agreement in Promissory Note.
 - 4. The 12, 16, and 25 year clocks begin when loan is placed in ICR, not before.
 - 5. For loans made before 2002 that are put into ICR, account terms will be as under current ICR's repayment tables.
- VI. Consolidation
- 1. Current loan consolidation provisions for unsubsidized and private loans will be kept.
 - 2. Students may consolidate loans into a single ICR loan at any time.
 - 3. Students may consolidate loans made prior to July 1, 2002, into a single ICR loan at any time.

- a. New ICR terms will apply (i.e. in-school and grace period interest added back in).
 - b. ICR clocks start at the time of consolidation.
- 4. No circumstance shall require students to have loans with more than one lender.
- 5. Non-federal government holders may offer any consolidation options they wish as long as they conform with #4.

VII. Miscellaneous

- 1. Section 458 (DOE's Administrative fund) will be repealed on September 30, 2000. A new authorization for appropriations will be needed for any unmet obligation.
- 2. Data sharing requirement: The Department of Education and the IRS will have to share necessary account information and data to match borrower Social Security numbers, incomes, and payments.
- 3. The Department of Education must maintain an 800 number (and possibly an internet website) to answer borrower account inquiries.
- 4. The Department of Education must pay the IRS for marginal cost of collection efforts.